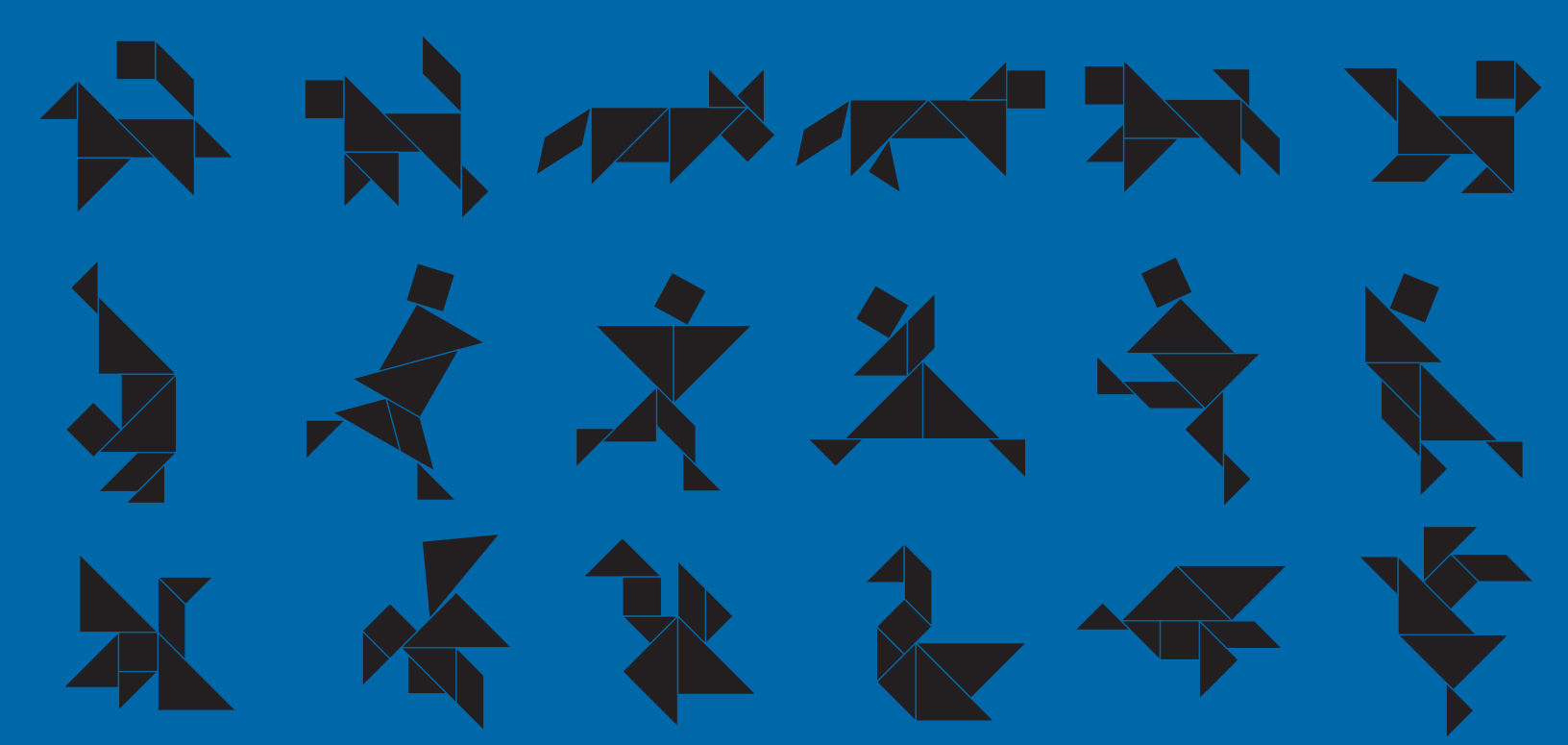
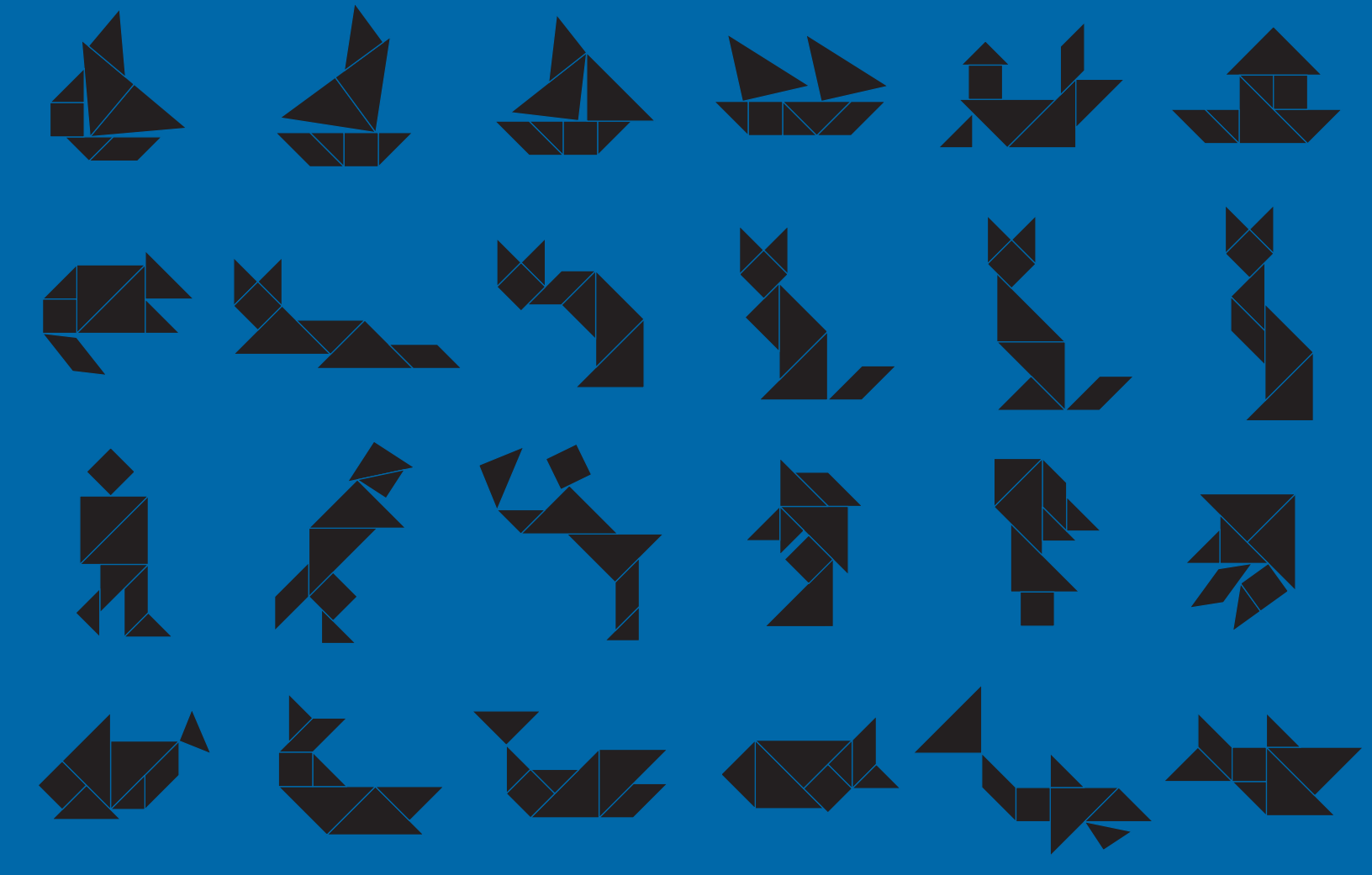


Sense. Solving the puzzle of complex brand portfolios



Sense is a publication of Lippincott Mercer.
Issue 97: Strategic communications issues affecting top management.

Nothing new under the sun?
Brand architecture and brand portfolio themes have been with us for centuries. *(Foldout front cover)*

2 Portfolio power
Until brands are managed collectively, as portfolios, they won't do all they can do for shareholders.

10 Case profile: Sara Lee slices its product portfolio.

12 Take a number
New brand-science techniques let facts outweigh emotions.

22 Design connections
What's design got to do with brand portfolio management? Everything.

26 Case profile: ABN AMRO creates an emerging global brand.

28 Stiff resistance
Achieving the ideal brand portfolio often means beating back the naysayers.

34 Glossary

ABOUT THE COVER:
The tangram—an ancient Chinese puzzle whose seven pieces can be arranged to form a multitude of different silhouettes—is the perfect metaphor for the complexities of brand portfolio management.

TIMELINE

Nothing new under the sun?

Brand structure and brand portfolio themes have been with us for centuries—just not known by those terms.

Development

AMERICA

WORLD

EUROPE

ASIA

Middle East: Muqaradas—flexible trading partnerships that were limited in growth due to inheritance laws that broke partnership upon partner's death

- Trading partnerships

- Family firms with joint stock
  Northern Europe: guilds and state-chartered companies cause industry monopolies

- **China**: Elaborate semi-permanent partnerships set up for several business voyages
- Large, state-supported companies focused on one industry

- Early industrialists prefer partnerships
- Beginnings of chartered companies

- Chartered companies with exclusive rights to regional trade
  Holland: more durable companies (all voyages under 21-year charters)
  England: each voyage separate
- Continued presence of small, family-owned firms

- Most businesses remain single units run by independent traders
- Railroads benefit development of wholesalers, mass retailers
- "Big" companies: focus on economies of scale and "owning everything"
- Development of branding (packaging, etc.)

- Reforms of corporate laws to create more flexibility
  France: partnerships with transferable shares and limited liability; ensuing influx of businesses
  England: Joint Stock Companies Act; subsequent reforms; and Companies Act, which introduces limited liability and eliminates charters
- Beginnings of cartels (e.g., economic downturn forcing M&A in 1870s Germany)
- Dawn of multinationals: railroads accelerate exports

Japan: Zaibatsu—large companies operating in multiple industries

- Economies of scale and new focus on productivity force consolidations
- Alfred Sloan management disciplines: multidivisional corporation and brand pyramid at General Motors
- Formal brand management
- Fears of "large corporation"; antitrust movement
  1911: breakup of Standard Oil
  1914: Clayton Antitrust Law
  1933: Glass Steagall Act required bank holding companies to use separately capitalized a liates for securities business

- Tariff protections force acquisitions as means of access to local economies

- Diversification (1960s), break-ups (1970s, 1980s), merger mania (1990s)

- GATT abolishes trade tariffs, sparks globalization of markets and brands, allows small firms to compete globally
- Technology "revolution"
- Competitive explosion: new small competitors, new channels; global competition
- Brand extension, "shelf wars," i.e., brand proliferation

- Establishment (1951) of European Coal and Steel Community—forerunner of the EU
- Nationalization (1950s, 1960s): goal to better compete with large US firms
- Privatization, deregulation (1970s–1990s) as state budgets are squeezed

Japan: Toyota's disciplined Production System

- Deregulation in financial services; subsequent waves of M&A, industry consolidation
- Continued Internet development leads to further brand proliferation
- Economic downturn pressures marketing budgets
- Demise of Enron and other corporate scandals underscores need for clarity about corporate structures and interrelationships

China, India: Economic liberalization alters global sourcing patterns

Bank of America/FleetBoston
JP Morgan/Chase Manhattan/Bank One
Merger mania — Time Warner, Enron
Break-ups — AT&T
Nationalization/privatization — Renault, Elf Aquitaine, British Airways
General Motors
Procter & Gamble
General Electric
Mitsui
Mitsubishi
Hoechst
Bayer
Sears, Roebuck & Co.
Macy's
Boulton & Watt (steam engine)
East India Company (trading)
Hudson's Bay Company (trading)
Stora Enso (forestry products)
Medici dynasty (banking)

	~1000 A.D.	1200–1400	1500–1750	1800s	1900–World War II	World War II–2000	2000–Present
Key themes	· Dominance of partnerships	· Continuance of partnerships · Emergence of state-supported monopolies · Beginnings of diversification	· Speculative development, particularly in trading	· Economic and legal environments create conditions for growth of large corporations · First waves of consolidation	· Waves of consolidation early in 1900s; large U.S. corporations dominant · Multidivisional company appears; so do formal marketing/branding concepts	· Deregulation and unbundling of large corporations · Globalization · Increasing impact of technology, leading to Internet "revolution"	· Economic downturn, modest recovery · Further consolidation, particularly in financial services · Internet bust follows boom · Backlash against complex corporate structures
Brand management observations	· Master-brand bias—for example, toward family name—has key influence on business development	· Limited interest in branding due to finite duration of charters · Potential for "sub-branding" of separate voyages or different trading activities of companies such as East India Company	· Need to determine post-M&A brand structure	· First formal brand portfolio management tools · Brand structure needed for international acquisitions and multidivisional businesses	· Need for global management of brand portfolios and brand structure · Renewed attention to core competencies prompts new look at concept of brand rationalization · New brands, including Internet brands and other sub-brands; need to properly incorporate in brand structure	· Emphasis on ROI for product brand budgets and overall market budgets increases need to rationalize brand portfolios · M&A and post-Enron backlash add to need for clarity in corporate brand structure	

From the chairman

You can learn a lot about a company by how it structures its brands. Whether its business units have distinct identities or are unified under one name—as with American Express and Samsung—the brand structure speaks volumes about the organization's business strategies, its values, and how it operates.

In fact, brand structure can allow you to predict with some certainty where the company will fall on a continuum from marketing efficiency—Samsung's "master-brand" approach—to flexibility, an approach that works fine for Starwood, the holding company whose Sheraton and W hotel brands are targeted to quite different clientele.

You can also gain tremendous insights by studying the arrangement and scale of a company's product portfolios. When the number of product brands expands—carb-friendly this, sodium-free that—yet the organization's marketing budgets are held flat, you know there will be trouble unless the company has a clear plan for managing its portfolio of brands. Companies such as Unilever—now streamlining from 1,600 brands to the 400 or so that will deliver at least 90 percent of revenues—understand that very well.

We're glad to report that we're hearing meaningful conversations among executives about the economics of brand portfolios—about relative brand equities at both the corporate level and the product level. These days, there's more informed talk about how to allocate marketing budgets most effectively. And there's more debate about what brand structure means to the modern corporation and its stakeholders.

In fact, the top-level discussions about brand portfolio management have gathered enough momentum for us to devote an entire issue of *Sense* to the topic. It's the right time to spotlight the theme because concepts that once were clear in managers' minds have been muddied, and solutions that have worked for decades may no longer work—not least due to the messy forces of globalization. What to do about the identity of one of Brazil's biggest banks after it's been acquired by a European financial firm with a lively brand of its own? What's the plan when institutional investors still identify your company with a sector it's been moving away from for years?

In this issue, Lippincott Mercer explores the rationale for moving brand portfolio management issues higher on the agenda. Our stories offer many fresh ways to examine the challenges and to start to devise pragmatic solutions. We identify the triggers for such scrutiny as well as the tripwires that snag the proponents of a portfolio approach. And we contend that discussions about managing brand portfolios will continue to grow in urgency and importance to business leaders in the future.

This issue of *Sense* also moves the debate beyond emotion while accepting that, on many levels, brand is all about emotion. Done right, brand portfolio management blends art with science, instinct with hard numbers. New brand science techniques are helping put hard metrics behind resource decisions that too often have been driven by gut feel. Yet creating the right emotional connection remains a crucial tool to ensure that brands communicate the right messages and invoke the right responses.

We hope this issue of *Sense* helps business leaders rethink how they allocate marketing resources or acquire new subsidiaries half a world away. We have no illusions about the many persistent obstacles they face. But if we can help clarify the "why now" aspects of a portfolio discipline—if we can demonstrate the long-term value of continually managing brand structures in an orderly, systematic, strategic way, then we'll have made a contribution, and we'll be pleased. We hope you will be, too.

Kenneth Roberts, chairman and CEO, Lippincott Mercer

Portfolio power

Brands now matter enormously to managers far beyond the realm of product marketing: Companies and divisions have brands in the same way that cars and breakfast cereals do. But until brands are managed collectively—much as stock portfolios are—they'll fail to do all they can do for shareholders.

When the last Oldsmobile rolled off the assembly line, there was plenty of nostalgia for America's oldest automotive brand name. Car buffs and industrial historians were quick to remind us that in its 107-year history, Olds had pioneered the automatic transmission and chrome-plated trim, launched the first on-board navigation system in a production car, and offered what Olds called "air cushions" as early as 1973.

But in terms of brand portfolio management—from an economic point of view—the demise of Olds was a good thing. Despite repeated efforts at resuscitation, the brand had declined in relevance, and with it slid market share and profitability. General Motors could no longer afford to support the brand; those marketing funds were far better spent repositioning Cadillac and protecting Chevrolet. In shutting down Oldsmobile, GM showed a firm grasp of how to manage a complex brand portfolio.

The automaker is in the minority. For all that has been written about, spoken about, and taught about brands in the last half-century, it is the rare organization that has a deep understanding of the links between brand equity and shareholder value. Rarer still is insight into the relationships among the identities of parent corporations, subsidiaries, and partners. Even among consumer-goods companies—arguably the world's most brand-aware—debate and confusion continue about the relative equities among their product brands.

In the past, companies lacked a lexicon and common framework to describe the rather abstract concept of brand. Often interpreted as "reputation," brand has been defined differently by various constituencies. The evolution of branding into a management discipline is recent. (See the timeline inside this issue's cover.) It has been largely the province of the Gillettes and Nestlés and Unilevers—consumer-products giants whose huge marketing outlays on this razor or that bottled water have helped establish brand management as a bona fide business approach.

But that is no longer enough. There is a spectrum of brand portfolio management issues: Brand discussions must progress far beyond a single product or product category—from management of individual brands to non-stop management of a portfolio of brands. And the portfolio concept must move far and fast beyond the marketing department: "Portfolio of brands" must refer to the hierarchy of organizational and product names and therefore has an impact on departments ranging from product development to human resources. Just as every Kraft Foods brand manager knows his or her job involves understanding a complex series of interactions with multiple brands addressing multiple audiences at the same time—and not just advertising—so all business managers must now elevate the discussion to anticipate brand relevance in the future.

But why is it suddenly so important to engage in such broad brand portfolio matters? There is nothing sudden about it. Brand building has been growing increasingly complex and risky: The pace of business has accelerated, and shareholders (and CEOs) have become less tolerant of slow growth, mistakes, and waste. Complexity is rising: At the consumer product level, the pressure for shelf space dominance and the public's appetite for variety have justified an onslaught of

Brand structure is a matter for every department

Human resources and administration What are we hiring for? How do we train and reward right?			
Product development What new products do we make and why?	**Manufacturing** How do we make them and where?	**Sales and marketing** What's the marketing message, who's it for, and what'll it cost?	**Customer service** How do customers view us, and how do we help?

1991
2001
15,000
45,000
NUMBER OF BRANDS ON U.S. GROCERY STORE SHELVES
1960
1990
2000
1,500
3,000
5,000
ADVERTISING MESSAGES TO WHICH U.S. RESIDENTS ARE EXPOSED DAILY
1960
1985
2002
18,434
65,800
207,287
TRADEMARKS REGISTERED WITH THE U.S. PATENT OFFICE

brand extensions and new offerings. Publicly available statistics show that the number of brands on U.S. grocery store shelves exploded from 15,000 in 1991 to three times that number a decade later.

These numbers present monumental problems for producers, distributors, and retailers—problems that sophisticated software does little to alleviate. When Unilever launched its "Path to Growth" overhaul a few years ago, it began to cull product brands from a total inventory of 1,600, with the intent of retaining only the 400 or so that generate more than 90 percent of Unilever's revenue. The pressures aren't that dissimilar in the manufacturing sector. By 2007, according to Deloitte, sales of new products introduced in the three preceding years are expected to generate 34 percent of companies' total revenue—up from 21 percent only six years ago.

At the same time, corporate brand structures are more susceptible to change. Merger and acquisition activity has picked up again, raising many thorny brand management issues. Who will be in charge? Which brands collide, and which are complementary? How do the original corporate entities—at every level—signal business continuity and ongoing support for their customers? Businesses are only slowly learning to tackle those issues before the ink on the deal is dry.

None of those brand issues is new. But the forces of globalization and transparency of information conspire to make the whole issue much more critical today. At Lippincott Mercer, we're in a unique position to monitor brand activity across a wide swathe of industries, and we hear these concerns directly from senior managers.

The most interesting questions are coming from chief executives—and from operating executives across many functions. We receive queries that bring complex brand portfolio management issues into play—queries such as:

- Wall Street still considers our company to be an industrial manufacturer, even though our business now comprises mostly services. How do we get that message across?
- Given the latest trend in our core markets, are our product brands still relevant?
- We need to spend our marketing budget where it will have the most impact. Where can we make changes?
- What brands should represent the business once we complete the current merger? How does this choice affect our corporate identity?
- How do we recruit and train staff as we migrate to a new brand structure?
- Where do we locate new production facilities if we increase support for regional brands?

While many of these questions may be triggered by major, obvious catalysts such as a merger, they are more often the cumulative result of an array of smaller factors intersecting with management's greater awareness of brand issues. (See sidebar: "10 triggers.") Although most executives presenting these queries may not be able to immediately quantify their companies' problems, they are starting to link brand portfolio inefficiencies with depleted share value. They are realizing that brands left unmanaged are assets squandered.

Let's look more closely at brand portfolio management from both ends of the spectrum. In terms of product brands and SKU rationalization—the stuff of the consumer goods sector—brand portfolio management translates into gaining a broad understanding of where the value lies and how strong the momentum is in any brand or group of brands. After Sara Lee purchased the Earthgrains family of brands, it suspected it had too many bread brands to support with limited marketing funds. Armed with data from brand science studies, it was able to determine that only about a third of its bread labels accounted for almost all of its bread revenues and margins.

THREE TYPES OF BRAND STRUCTURE

At the other end of the spectrum, a portfolio approach calls for selecting the right corporate brand structure to consistently telegraph the right messages to key constituencies—alliance partners and employees as well as customers. Lippincott Mercer defines three core categories of brand structure: the master-brand approach, where every product and division bears the corporate name; the parent or holding company model, where division names bear little relation to the corporate name, as at Starwood; and the asymmetric brand approach—for example, Ford, whose name applies to divisions and automobiles, also owns independent brands such as Jaguar and Land Rover.

A unified master-brand structure is much more efficient but far less flexible than a decentralized one: It can prevent conflicting communication strategies and is very cost-effective, but it exposes the brand in the event of an isolated crisis (as investors in Martha Stewart's company found out). But even though Lippincott Mercer's research shows correlations between different brand structures and financial performance in certain industries, and between brand structure and stock market valuation, there really are no absolute rights and wrongs here. Each approach can work in the right corporate culture, circumstance, market expectations, and business objectives.

Recently, new analytical tools and techniques have emerged to help managers make more informed choices about brands. (See "Take a number" story.) Lippincott Mercer makes extensive use of these brand science methods for all kinds of projects: to pinpoint the returns marketers can expect from investing more in certain advertising media, for instance, or to quantify the opportunity costs of diverting funds from one brand to another. With such techniques at their disposal, managers can more confidently allocate resources.

Brand portfolio is about corporate brands.
Is my brand structure consistent with my business strategy?
If not, how can I better align the two?
How do I make the right brand-ing decisions regarding acquisitions...
...or regarding new product development?
...or for alliances such as joint ventures and co-branding?
It's also about product brands.
Am I support-ing the right brands?
What is the SKU structure within my brands?
Am I leveraging my strongest brands across segments and categories?
Which brands are best positioned for future growth?
How do the different SKUs contribute to the profitability of my brand?

Visual identity is the better-known part of the brand portfolio management story—the emotional and intuitive part. It is the coherent system of color, typography, imagery, and language that communicates the character of a company and its products to customers, investors, and employees. When IBM bought Lotus Development, it departed from its longtime master-brand approach by leaving Lotus's powerful visual identity virtually intact. That way, it would not alienate customers who did not think of IBM as a software "player"—and would not upset valuable Lotus employees who came from a quite different corporate culture.

So who are the true brand portfolio management masters? The question isn't answered by ranking the world's most valuable brands—as listed in *BusinessWeek*'s annual Global Brand Scorecard—and the answer certainly isn't a function of whose TV ad created the most buzz. Lippincott Mercer most admires the organizations that can clearly identify and respond to their most important and profitable customers. We admire consumer-packaged goods businesses that know exactly which underperforming brands they'll be selling off soon and why. We respect conglomerates with a vision of what a single global brand can do to help them cross-sell. We applaud businesses that know to what degree to trust emotion in brand decisions—and yet how much science to apply to calculate the equity in that brand.

We would count the Marriott hotel chain and Disney among our pantheon of brand exemplars. Each has well-defined target customers and fully understands the elasticity and boundaries of its brands. We also believe that General Electric, Samsung, and Virgin do a terrific job of maintaining consistency in global brands across many very different constituencies. In India, the Tata group of companies extends the efficiencies of a master-brand model across seven business sectors, from automotive and chemicals to communications and information technology. In Mexico, Telmex has used a simpler brand architecture model and consistent visual communications system to shed its image as a government-owned telecommunications provider.

Elsewhere, American Express does an outstanding job of using its brands to declare distinct competencies—witness the clear market segmentation of its Platinum and "Blue from American Express" cards. Nike and Apple fully exploit the power of visual symbols. And UPS is uniquely identified by its fleet of chocolate-brown trucks: The word "brown" has even become part of UPS's marketing persona.

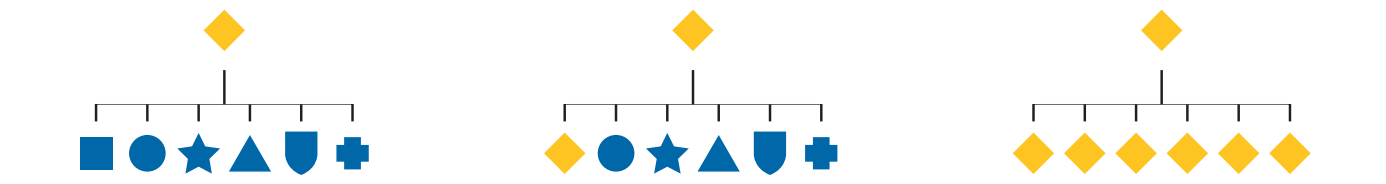
So what lessons can be learned from the exemplars? This isn't the place for a discourse on how to craft a brand portfolio strategy. But we can begin by describing the six lenses through which any discussion of brand structure should be viewed:

NUMBER OF LEVELS: Brand structure doesn't automatically align with the organization chart, but it must be thought of in comparable hierarchical terms. Starting at the highest level—the corporate entity—the parent's brand name should cascade down to "group" or "division" or "subsidiary," to the plant or regional office, and eventually to the product line. It doesn't need to be a complex hierarchy, but it does need to be reviewed to ensure it reflects where the power lies. An influential division "president" can quickly disrupt a brand portfolio overhaul if it means he or she is titled "vice president" in the new structure. (See "Stiff resistance" story.)

FOCUS: The discussion here should revolve around which brand element you choose to lead with and under what circumstances. Is it a Corvette or a Chevrolet Corvette? An iPod or an Apple iPod? Context matters: To sports car aficionados, it's simply a 'Vette. Yet the Corvette has brand equity to spare—quite enough to lend weight to Chevy's "American Revolution" marketing theme.

CONNECTIONS: The right association between brands—and sometimes up or down a level, per the Chevy example above—can spread the brand wealth cost-effectively. Similar thinking applies to co-branding. In one recent exercise, a major automobile manufacturer wanted to know which other consumer brands—from toys to motorcycles—might add value to

Brand structure establishes the shape of how a company and its operating units and brands communicate



HOLDING COMPANY
THE CORPORATION, OPERATING UNITS, AND BRANDS DO NOT SHARE THE SAME NAME.

ASYMMETRICAL
THE CORPORATION AND AN OPERATING UNIT OR BRAND SHARE THE SAME NAME.

MASTER BRAND
THE CORPORATION AND MOST OPERATING UNITS AND BRANDS SHARE THE SAME NAME.

1956:

Design Sense

WHAT *SENSE* WAS SAYING:

"The consumer's string of brand names is not static. Each year he is regaled by 15,000 new brand names coming into the market. During recent years, dynamic changes in sales figures emphasize the increasing competition. In 1950, seven percent of all drugstore sales were introduced items. In 1954, 35 percent of all drugstore sales were new products or brands. More than 50 percent of the products which DuPont is marketing today were not in existence ten years ago! For the marketing executive, it is vital to recognize that for each new brand name the consumer uses, an old name is discarded."

its powerful SUV brand. Lippincott Mercer's analysis showed that significant co-branding revenue could come from the right associations. Plotting the size of the incremental revenue opportunity against the equity in potential co-brands, we pinpointed valuable affinity with Harley-Davidson and K2 skis—but not with Pennzoil or Ben & Jerry's ice cream.

CONSISTENCY: A great failing of many businesses is that their brand strategies are applied erratically. A flaw at the most fundamental level is when marketing budgets grow after a good year, only to be picked apart when things get tough. That's generally a sign that brand management disciplines are immature—that brand strategy has not spread beyond the marketing department.

THE PASSAGE OF TIME: No brand is forever. Although it is acceptable to alter a brand over time, it's not acceptable to passively let it happen. Absent an explicit brand-migration plan, a brand can mutate on its own, and corporate brand equity can seep away. (It often happens when a distant division or regional office, mistrusting "corporate," opts to pump up its own brand.)

EXCEPTIONS: If there is to be a breakaway from a cohesive master brand—think of NBC, GE's media powerhouse—there must be an explicit business reason for the distinction. The separate entity must be gauged to have greater brand equity than if it were identified primarily as a subsidiary.

The brand portfolio management conversation may not be the lead agenda item at every board meeting, but its importance has increased significantly. We receive fewer queries today about what a brand is and many more related to what a brand can do—how its equity can be measured, lent, and extended. Senior managers from many disciplines are beginning to ponder these questions—as they should. Brand is no longer a matter for the advertising manager alone.

Still, wholehearted acceptance of the concept of brand portfolio management lies ahead. It cannot be an afterthought or a sometime consideration, dealt with only when product brands are proliferating out of control or division lieutenants are at war over their places in a new organization. Nor can brand portfolio programs be thought of without considering the roles of art and science in their effective execution—art in terms of the visual language of logos and colors and science in terms of the new metrics that can re-energize the debate.

The tools and expertise are there to make brand portfolio disciplines integral to every business. The challenge now is to muster the collective will to use them. ●

The 10 triggers for a review of your brand portfolio

MERGER: Company seeks to develop an integrated brand structure for the newly merged company.

ACQUISITION: Company seeks to assess the value of integrating a newly acquired brand into its own portfolio (master-brand strategy) or maintaining the new brand as a separate entity (multibrand strategy).

ACQUISITION RATIONALIZATION: Company has acquired multiple brands over time, and is unclear on the benefit of maintaining multiple brands or developing a master-brand strategy.

BRAND EXTENSION: Company seeks to determine how the current brand structure can support extension into a new business, product category, channel, price point, and/or geography.

BUSINESS STRATEGY: Company seeks to launch a business but protect existing brand equities to mitigate risk.

NEW OFFERING: Company is considering a new business area but is unclear whether the strategy should be to extend the current brand or develop a new one.

STRATEGIC FOCUS: Company is shifting its strategic focus; it is unsure whether to reposition the existing brand or create a new one.

UNDERVALUED PARENT: Company seeks to rationalize a cluttered brand portfolio to build its reputation.

UNKNOWN PARENT: Company seeks to elevate the role of the parent company since it is not fully recognized for all the brands it owns.

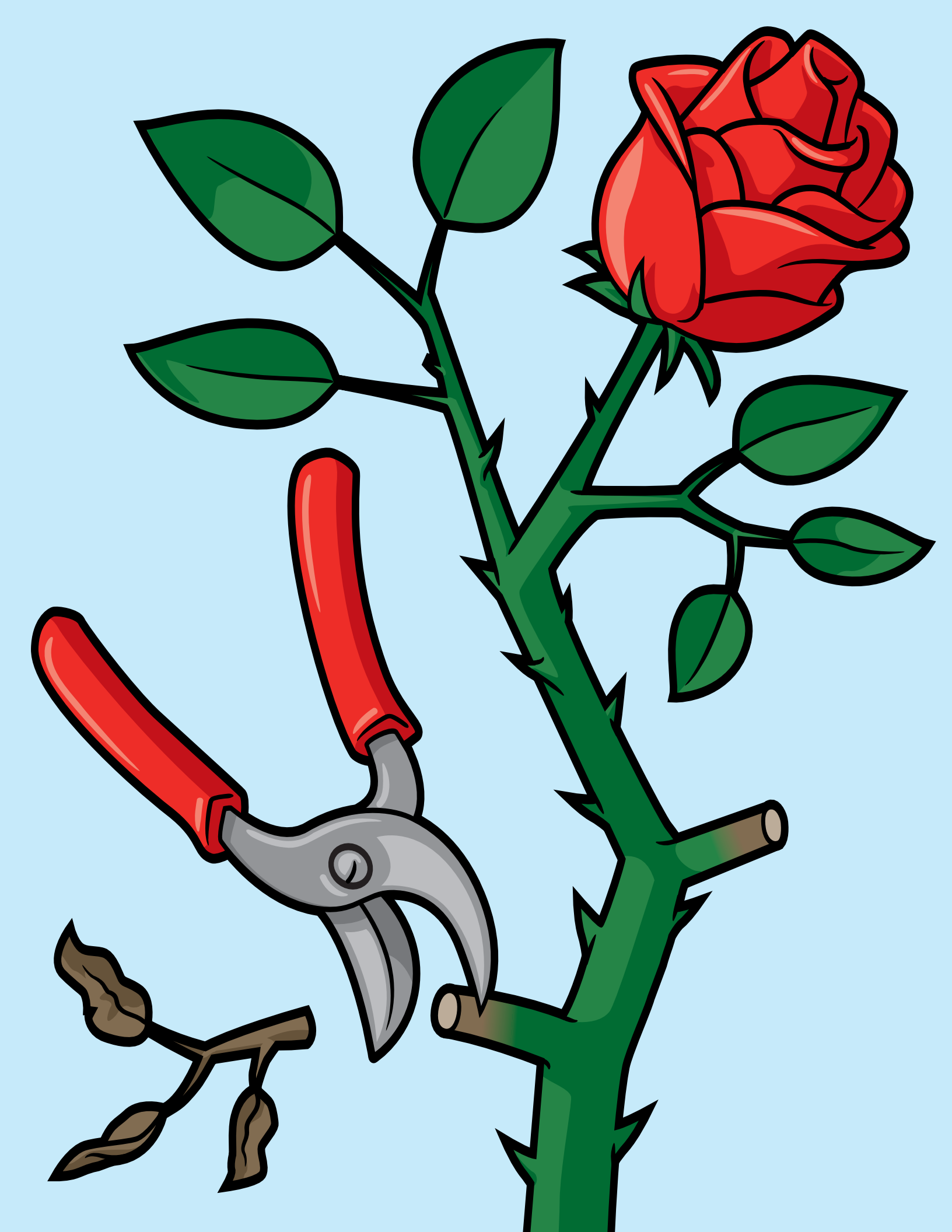
CROSS-SELL OPPORTUNITY: Company seeks to clarify brand relationship(s) to enable cross-selling strategies.

ROI: Company needs to understand how to allocate its investments across its various brands.

GLOBALIZATION: Company has brand(s) with strong domestic equity but little equity in global markets; it is unclear about its best growth strategy.

CANNIBALIZATION: Company has multiple brands that once were distinct but which have grown into each other's markets. Company needs to understand the value and role each brand plays in each category.

CUSTOMERS AS COMPETITORS: Company seeks to understand the particular value and perceptions of brands to resolve or mitigate channel conflict.



CASE PROFILE

Bread knifed

Sara Lee slices its product portfolio

Senior managers at Sara Lee Corp. weren't clear exactly why the company needed 80 fresh bread and bun brands. The question: Why can't Sara Lee have a national bread brand?

In 2001, Sara Lee acquired The Earthgrains Company, the number-two player in the fresh bread category. The purchase quadrupled Sara Lee's bakery sales to $3.4 billion and provided it with a premier direct-store distribution system that would help accelerate the extension of the Sara Lee franchise.

It also brought a profusion of brands, almost all of them regional—from Chicago Hearth to Rainbo, from IronKids to Grandma Sycamore's. From management's viewpoint, the multitude of brands added up to costs and complexity that Sara Lee Bakery Group shouldn't have been paying for. In fact, this complexity clashed with one of Sara Lee's four operating principles: "Achieve the lowest possible costs by leveraging our skills, scale, and technology, while striving for functional excellence in all business processes."

Sara Lee had already moved to cut production and distribution costs following its Earthgrains acquisition. By March 2003, the company had shut down six bakeries, consolidated other U.S. operations, and trimmed headquarters and regional office staffs by 18 percent, contributing to annual savings of more than $40 million.

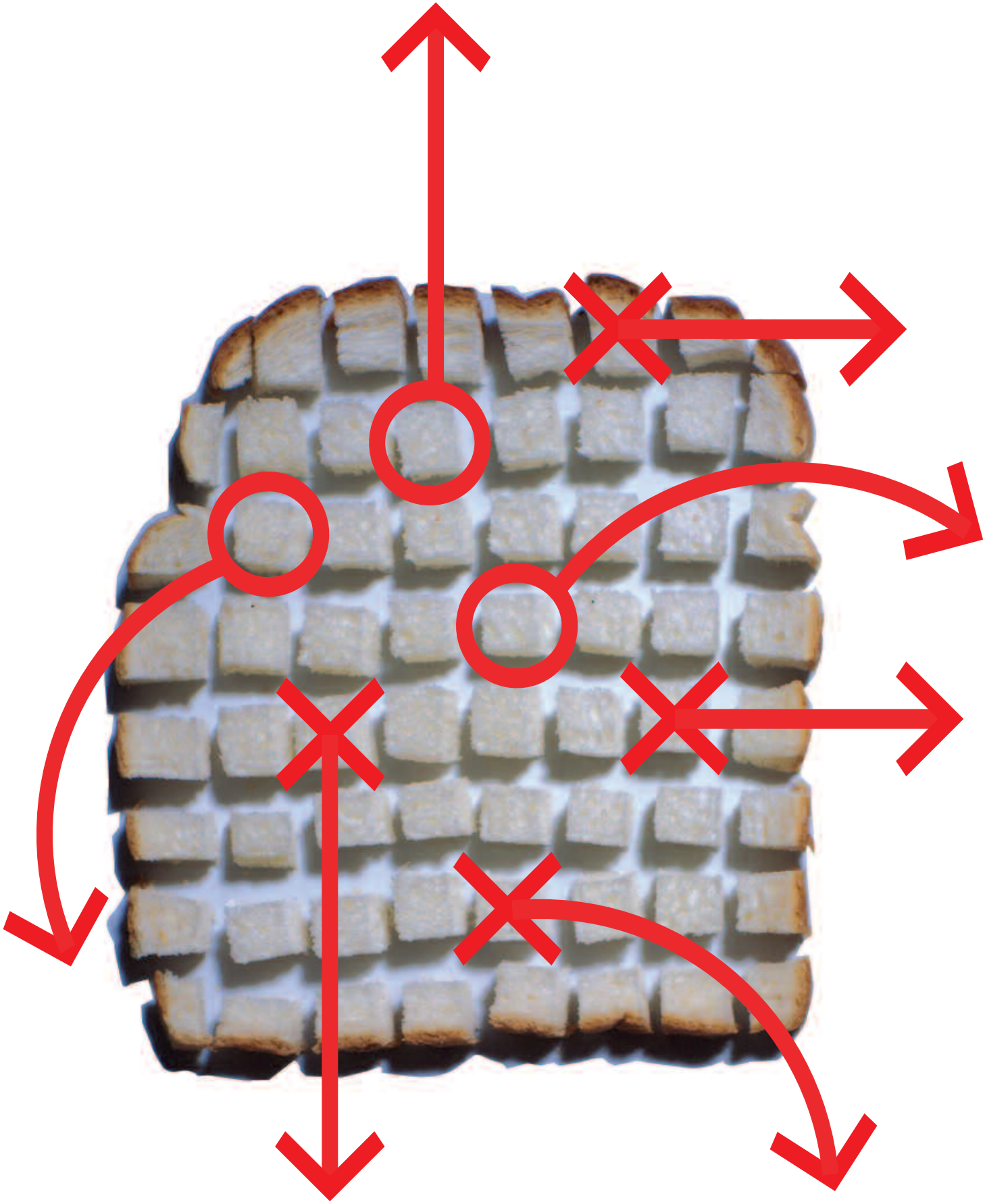
That was only part of the story. The company's other push was to rationalize its brand portfolio. With guidance from Lippincott Mercer, the bakery group began to assess where the value lay in its brand portfolio, evaluating the brands along three core dimensions: brand equity, brand leverage, and brand momentum. This initial work gauged the economics of each brand to clarify its value to Sara Lee.

It didn't take long to learn that nationwide, 27 of its 80 brands of fresh bread and buns accounted for 95 percent of the category's gross margin and gross sales dollars. Marketing investments across the brands varied widely. Lippincott and Sara Lee then developed six criteria—from gross sales and margin to flavor coverage—and used the criteria to design a set of portfolio alternatives that would maximize market coverage and long-term economic gains while minimizing short-term economic losses.

To assess the brand leverage of Sara Lee breads, Lippincott Mercer ran a nationwide customer survey. A parallel survey analyzed brand equity in the U.S. regions where the brands were sold. Earlier qualitative research conducted by Lippincott Mercer had led to the hypothesis that the bakery group could cover its market segments with several national brands and a few strong regional brands. Lippincott Mercer worked to prove this hypothesis by applying brand science techniques to each survey, including extendability assessments to see how far brands could stretch and "choice modeling" to plot "what if" market share shifts within the bakery's portfolio and across competitors, assuming certain brands were expanded or eliminated. These brand science methods also assessed price sensitivity—by flavor, for example—to determine where each brand fit in the portfolio.

An additional study charted the brand momentum of Sara Lee's breads and buns. Collectively, the analyses showed that a handful of the company's big brands—Sara Lee, IronKids, and Earth Grains included—promised sustained growth.

Sara Lee's executives soon concluded that they could maintain a forceful national presence with a few "pillar" brands, several super-regional brands, and a small group of strong regionals. The smaller, stronger portfolio would yield substantial marketing cost savings yet offer retailers greater flexibility for promotions and private labeling. The management team lost no time in acting on the recommendations: By May 2003, 58 bread brands were no more, and nearly 2,000 SKUs had been eliminated. •



Take a number

New brand science techniques are giving executives more insights into the value of brand-building investments. The new methods apply rigorous econometrics to quantify the health and power of product and corporate brands, to assess how well a brand is positioned, or to gauge the value of one brand strategy over another.

What exactly is a brand worth? It's well known that at brand exemplars such as Nokia, BMW, and Samsung, the brand is a large contributor to market capitalization. Wall Street is gaining comfort with the concept that brand affects shareholder value. In fact, when analysts are estimating "price/earnings forward" numbers, non-financial elements have the greatest impact on their conclusions. In a recent Lippincott Mercer study of publicly owned U.S. manufacturing companies, actual financial performance accounted for about 44 percent of the value of a company's shares in the sector, while expected financial performance made up another 27 percent. The remaining 29 percent of the shares' value stemmed from the perception of the company's management expertise, brand awareness, corporate reputation, employee commitment, and other non-financial factors.

However, understanding the extent of a brand's contribution to shareholder value is only a start. Brand management has become complex enough to require deeper levels of operational attention than in the past. Managers must measure the potency of their brands just as they measure their tangible assets, and they need to reap quantifiable returns from their brand investments.

Yet very few organizations bring as much discipline to the economics of brand management as they do to, say, pricing policies or plant utilization rates. It is the rare company that can confidently declare the revenue impact of repositioning or launching a new brand or quantify the price premium accorded to a core brand relative to its competition. Few executives truly understand the risks and rewards of reallocating marketing investments across different mediums. And most chief executives, if pressed by investment analysts to state a brand's effect on shareholder value, would struggle to answer.

Their difficulties are understandable. Until recently, brand management at most companies has been more art than science—guided more by intuition and street smarts than by hard asset management disciplines. But brand science—metrics-intensive techniques drawing on increasingly accessible data and proven econometric principles—is starting to bring new rigor to decisions about brand. To paraphrase the saying: It's becoming possible to say which half of your brand spending really does work—and to do so without being a math genius.

A PRIMER ON BRAND SCIENCE

Put simply, brand science involves applying quantitative methods to conventional brand questions in the context of a company's overall business strategy. This data, when properly gleaned and analyzed, yields powerful insights about the impacts of resource allocations and lets managers pinpoint the effects of brand equity factors relative to each other.

The numbers-based technique helps business leaders become smarter about the risks of repositioning a brand compared with the costs and benefits of launching an entirely new brand. With brand science, executives can more effectively gauge the consequences of phasing out a brand after an acquisition, as JPMorgan Chase did with Bank One. (See also "Science appliance.") Brand managers can better prioritize investments aimed at improving the customer experience in the retail setting and more confidently choose the appropriate mix of advertising and other media.

In short, brand science brings clarity to what historically were very emotional decisions, giving clear answers to typical "yes but" responses. And through the appropriate brand science techniques, managers can create a brand health scorecard with a mix of leading and lagging indicators of the health of the brands in the portfolio.

The most basic illustration of brand science is in the price or volume premium granted to "quality" brands compared to equivalent non-branded offers. Do you buy Kellogg's Corn Flakes or the store brand? Splurge for Starbucks or buy the local convenience store coffee? The Geo Prizm, a compact car sold in North America during the 1990s, cost the same $10,300 to build as its nearly identical Toyota Corolla equivalent (Geo was a GM-Toyota joint venture) but was priced $300 lower. The "bonus" value of Toyota's brand: $108 million more in operating profits and $128 million more for Corolla dealers than for Geo dealers.

What premium will consumers pay for your brand vs. the competition's?
Can you tell investment analysts how your corporate brand boosts shareholder value?
What methods do you use to calculate brand equity?
Has brand ROI been on the agenda at any executive meeting in the last year?
Who's in charge of your corporate brand?
How many brands *should* you have in your portfolio?
What's the risk of re-branding or eliminating brands from your portfolio?
What have you done to win support for brand development from your board?
How well does your board of directors understand the economics of your brand?

THE NEW RELEVANCE OF BRAND SCIENCE

Brand science techniques today are improving dramatically, driven by corporations' need to extract every advantage from existing resources. Corporations are awash in years' worth of data, and newly capable analytical tools, made possible by expanding computing power, can quickly draw meaningful conclusions from that data. There is more cross-over of mathematical constructs from the world of economics as well as a new focus on marketing methods by academics. And Web-based research is emerging as a speedy, efficient, and increasingly credible tool for gathering extensive data, especially applicable for consumer-based markets.

The new analytical approaches have particular relevance in today's atmosphere of constant pressure for top-line growth. Categories as diverse as bank accounts and DVD players are facing pricing pressures and commoditization, and there's far less tolerance for marketing initiatives that cannot be clearly connected to sales effectiveness. This phenomenon is exacerbated by the relentless attacks on cost from giant retailers such as Wal-Mart and more broadly by a steady surge of low-cost market entries from China and other emerging economies. There's a marketing cacophony as product SKUs and delivery options proliferate to meet customer needs.

At the same time, the current generation of senior managers is demonstrating much more brand savvy. The president of JPMorgan Chase asks tough questions about brand portfolio and its elasticity—how much a brand can be leveraged into adjacent offerings—and clearly understands the arguments around investing in brand-building. Today, chief executives will more readily query allocations of marketing expenditures. Finance chiefs are increasingly aware that brands demand continual investment—and are growing frustrated that they lack adequate metrics to properly allocate those investments.

Faced with such expectations and often feeling they've taken brand portfolios as far as they can, senior marketing managers are eager for new ways to demonstrate effectiveness. In some cases, new positions have emerged, such as chief marketing officers (CMOs), whose strategic roles transcend the traditional product-brand roots of many senior marketers. These new positions are being created by CEOs to oversee how portfolios of brands should evolve. Should DuPont's Lycra and Teflon brands both go after the shoe market? How can the Cigna brand be used across healthcare, retirement, and insurance businesses? In other cases, CMOs are setting up brand health scorecards designed to help executives understand the ROI of marketing investments—and the value of long-term versus short-term investments.

TYPES OF BRAND SCIENCE TOOLS

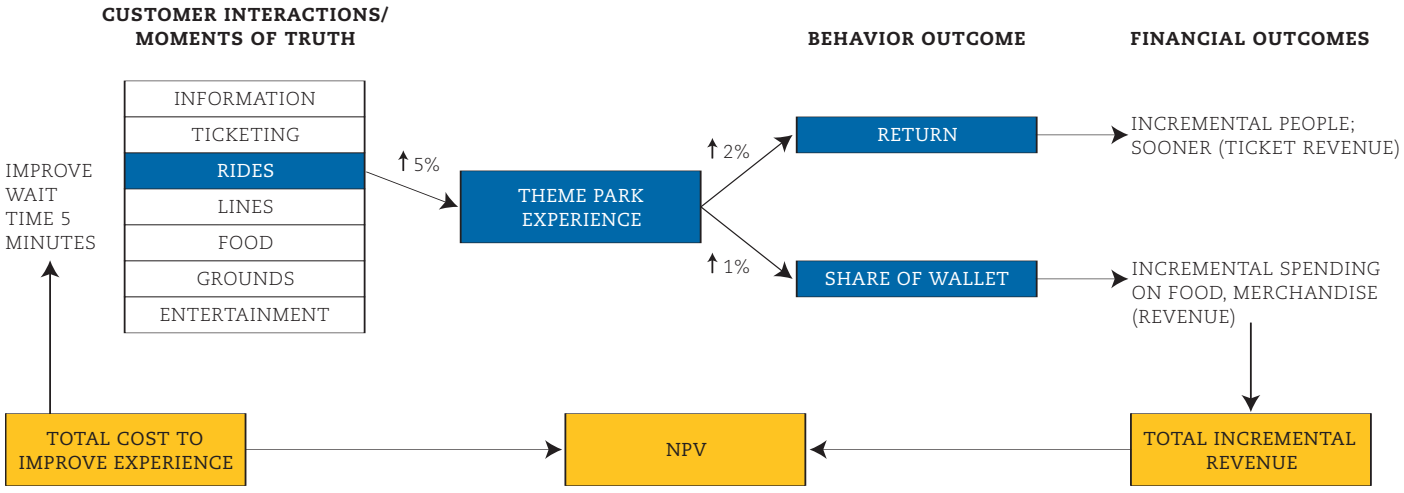
One thing must be made clear about brand science: There is no off-the-shelf, all-purpose "miracle" tool. Brand issues are both too complex and too company-specific for such easy answers. However, several techniques are proving very useful.

STRUCTURAL EQUATION MODELING: Has its origins in sociological research. Used in complex brand situations to determine how customer experience at different "touchpoints" drives desired customer behavior. It models the interaction of different variables in driving customer behavior—for example, product features with service elements, brand image, and competitor perceptions.

STRATEGIC BRAND ASSESSMENT℠: Derived from transportation demand modeling. Uses discrete choice models to determine the price/volume premiums associated with a brand and to uncover the brand attributes responsible for shifting the demand curve, all else being equal.

MARKETING MIX MODELING: Comes out of the econometrics and time-series modeling fields. Capitalizes on the increased availability of companies' own data and helps determine the ROI of specific marketing levers as well as best allocations of marketing budgets. Its sophisticated econo-

How structural equation modeling helps drive decision-making at a theme park



PROTECT
core equity elements, those that drive demand

ATTACK
competitors' positive equity elements to neutralize their brand advantages

FIX
negative equity elements that represent lost share

LEVERAGE
competitors' negative equity to take full advantage of their weaknesses

metric workings allow users to separate the effects of marketing levers from those of structural factors such as interest rates or GDP growth.

LATENT CLASS MODELING: Derived from the field of sociology. Based on the premise that customer behavior is driven by "latent" dimensions that are not observable with traditional research. This method of modeling is valuable for building a baseline understanding of customer segments. The model looks for obscure patterns in data about customer attitudes and behavior so that it can place similar individuals in distinct groups.

For now, it's enough to view the tools' applications in terms of three implementations of a brand science approach: historical analyses, in-market experiments, and market research.

Historical analyses rely on the fact that most companies have more useful data than they know what to do with. A thorough analysis of a company's records of marketing expenditures—multi-channel advertising, co-branding, media relations, and business outcomes, for example—can uncover response patterns that soon begin to describe the effectiveness of each measured medium. However, historical analyses are backward-looking and require control of extraneous factors such as product changes or competitors' maneuvers.

In-market experiments look forward and can be designed and controlled to answer relevant questions. These analyses can quickly and efficiently test the impact of millions of possible combinations on the desired behavior of consumers. These experiments test and learn from a product's application in real time, causing minimal disruption to current business operations. They are based on actual customer behavior and are free of all the usual biases of research. Meanwhile, conventional market research remains very important—the more so because today's Web-based approaches make it inexpensive and efficient.

The three quick examples that follow show that brand science is widely applicable:

1. ASSESSING THE IMPACT OF REPOSITIONING A BRAND

After acquiring the marketing rights for the HUMMER brand, General Motors wanted to understand HUMMER's unit volume and profit potential. Using latent class modeling techniques, GM assessed the size and growth prospects for key consumer segments beyond the traditional demographic and car-buying characteristics. The key finding: handle with care. HUMMER's military origins made some consumers love the brand, but others hated it. Even trickier: The H1 model's price tag—today $100,000-plus—targeted it squarely at the affluent. The chief challenge was to position the brand to attract new users without alienating core customers. Knowing the market's "latent drivers," GM was able to gauge the risk/return of applying the brand more broadly while maintaining the vehicle's cachet. The result: GM has a very profitable and unique brand.

2. DECIDING ON A POST-MERGER BRAND ARCHITECTURE

U.S. bank mergers now seem routine. Yet their size and scope have increased the risks—creating more pressure for mergers to be successful. When JPMorgan Chase acquired Bank One, the decisions about which brands to keep in consumer and commercial banking sectors were not obvious: Both banks had strengths in different geographies, lines of business, and customer segments. Using brand science, the new company's management evaluated the power, "stretch," and positioning of both brands to determine which brands to keep and which to retire. Discrete choice models simulated the share gain or loss in retail banking and credit cards with such precision that pulling the trigger became much easier. Long live the Chase brand.

3. PLOTTING THE VALUE OF ADVERTISING CAMPAIGNS

Many financial services companies are getting smarter about allocating marketing spend across mediums, channels, segments, and products. Yet there's still that question: "Does advertising pay back?" For one successful mortgage company, the answer is "yes"—but more advertising doesn't pay back more! Data gleaned through brand science techniques allowed the company to confidently say "no" when its ad agency suggested upping the budget in an attempt to win more exposure. Brand science helped explain the impact of advertising as a stand-alone medium and its impact on driving response rates for other mediums (e.g., direct mail, telemarketing, the Web). As a result, the company saved $50 million overall and reallocated $30 million from TV spots to the Web while continuing to gain market share.

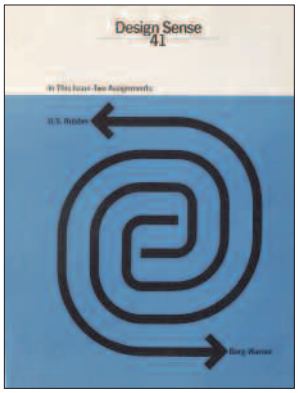
NEEDED: A NEW VIEW OF BRAND

Before brand science can do its best work, the conventional view of brand must shift further. However, perceptual barriers remain. Poll a typical gathering of managers on the definition of the term "brand," and you'll still get the standard-issue synonyms that short-change the concept—words such as "logo," "advertising," and "product label." Take the poll to managers at the packaged goods companies, and the answers, though more on target, still will not address the whole picture.

In the future, companies need to take a view of managing brands that encompasses everything that the packaged goods experts espouse—plus the application of brand science methods. Above all, their view must be rooted firmly in how the brands, individually and together, link to the business strategy.

There is no one blueprint for how to "do" brand science. Brand science techniques can be used badly just as they can be used effectively. But when the competitive stakes are as high as they are today, there is no excuse for not using them at all. ●

1964:



WHAT *SENSE* WAS SAYING:

"Let's suppose interplanetary relations have been established and a friendly space party is engaged in examining the spectrum of American business. Their confusion becomes total as they see pass before them the complex of parts that constitute Exhibit A—the worldwide activities of United States Rubber Company, its many divisions and foreign affiliates, and its thousands of products bearing more than 400 brand names.

"It would be an act of interplanetary mercy if we were to stamp each part of the unfolding panorama with a symbol designed to express the relationship of each part to other parts and to the whole, thus putting the corporation into proper focus for our curious friends."

CASE PROFILE

Science appliance

HP calculates the best role for Compaq

When HP and Compaq prepared to merge early in 2002, they faced tough choices about which brands to keep in the portfolio at the corporate level and at the product brand level. The decision wasn't as straightforward as making the Compaq name disappear—the brand had strong equity with corporate customers, and many Compaq products, such as the Presario line of personal computers, were well regarded by consumers and retailers alike. With obvious overlaps between HP and Compaq and finite resources to support a broad universe of products and services, something had to give. But what? And when?

Carly Fiorina—HP's chief executive—had encountered strong pushback from shareholders and some board members about the merits of the merger. One of the key arguments she had used to sway the votes was the power of the HP brand to reposition the corporation to compete successfully against both IBM and Dell. Fiorina recommended that HP adopt a master-brand strategy that essentially eliminated the Compaq brand or relegated it to a portion of the business or certain product categories. It seemed like the right decision, but the risks were unknown. That's where brand science came in.

Using discrete choice modeling techniques mapped out by Lippincott Mercer, HP was able to isolate the equity in the Compaq and HP brands—across customer segments, product categories, and geographies. Even in business-to-business markets, where the power of a brand still may not determine vendor choice, HP could dissect the equity in the HP and Compaq brands among corporate customers. The results showed that positioning the HP brand (in place of Compaq) around high-end solutions in the corporate sector generated the best ratio of risks to returns. But a critical question remained: what to do with the Compaq name? Should it be used as a "fighter" brand to battle Dell on price in consumer markets? Could it serve as the brand for select products? Could it help HP to push deeper into consumer electronics? And what should happen to other product brands in the Compaq portfolio? Again, brand science techniques provided guidance.

During the merger transition process, the evolving organization laid out product roadmaps to see clearly where product and customer overlap was most marked. The exercise categorized services, storage, servers, computers, and accessories lines and separated consumer and business offerings by geography. While the roadmaps showed opportunities to simplify the company's structure, HP executives were still not certain which brands should remain in the portfolio. Using discrete choice models, HP was able to quantify the potential market-share gains and losses caused by pulling specific product brands off the market. One of the company's key insights was that in the case of strong Compaq brands, such as ProLiant servers and StorageWorks data storage systems, the enterprise customers to whom those products were targeted were quite willing to transfer the equity to the HP brand.

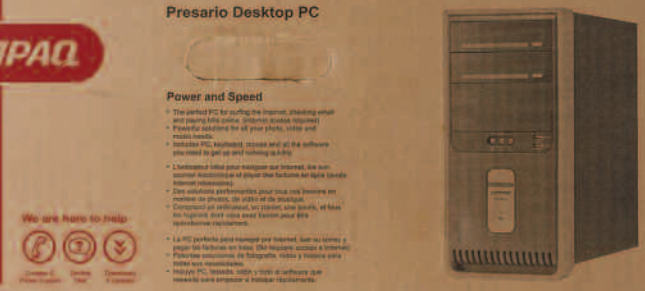
While it became clear that the Compaq label had equity in driving consumer choice in PCs and handheld devices, the complexity of managing multiple brands in the channel seemed overwhelming to HP's managers. The picture became clearer when they combined the discrete choice models with the economic value of product lines by geography: HP would do best to keep the Compaq brand for certain consumer PCs and electronic devices. The brand science study showed that if the Compaq brand was eliminated altogether, HP would probably suffer a market share loss of up to three percentage points in key product categories. So Compaq remains as a robust standalone brand today—just check out those Best Buy and Staples ads—and it provides value without taking anything away from HP's treasured brand. •

COMPAQ

Presario Desktop PC

Power and Speed

We are here to help



HP Deskjet 3845

Color Inkjet Printer
Imprimante couleur à jet d'encre
Impresora de inyección de tinta

18 | 14 | 4800 x 1200 | 6

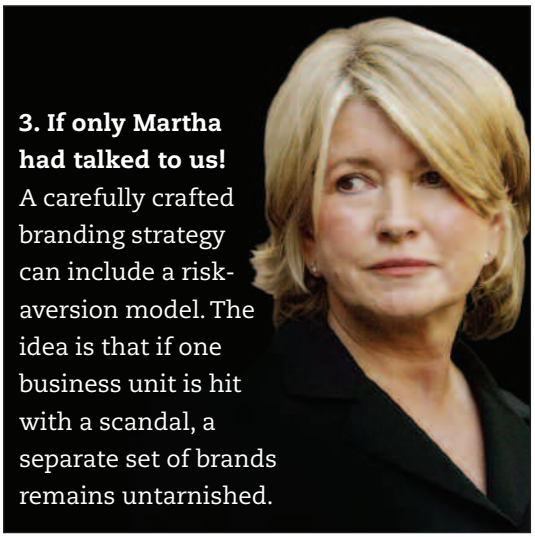
invent

Almanac

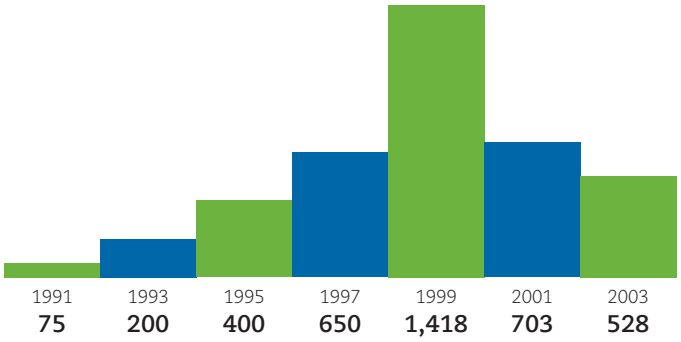
A miscellany of facts, figures, observations, and reflections on brand portfolio management

1. Brand extension or "improvement"?
New Coke was meant to improve the "old" product. When consumers didn't like it, Coke retrofitted it as an added brand.

2. Recognize it?
So would you still pay the Jaguar premium? Even the world's most recognized brands can elicit strong reactions with just minor changes to the font, colors, or corporate symbol.



3. If only Martha had talked to us!
A carefully crafted branding strategy can include a risk-aversion model. The idea is that if one business unit is hit with a scandal, a separate set of brands remains untarnished.



AGGREGATE VOLUME OF TRANSACTIONS
IN BILLONS OF US$

4. How many brands now?
Banco Santander and Abbey National? HP and Compaq? Ford and Jaguar? With every merger or acquisition come new decisions about brand portfolios. It's not 1999, but managers still have many more of those decisions to make these days.

PENNZOIL

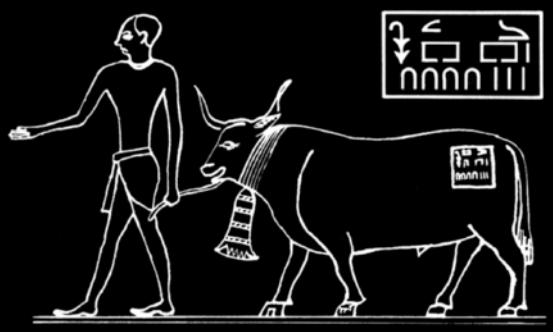
MOTOR HARLEY-DAVIDSON COMPANY

patagonia

BEN&JERRY'S

5. Which product is the right co-brand for HUMMER?
Only one of these products will add significant value to the HUMMER brand if it is co-branded with the rugged marque. Which do you think it is? *(See answer on the next page.)*

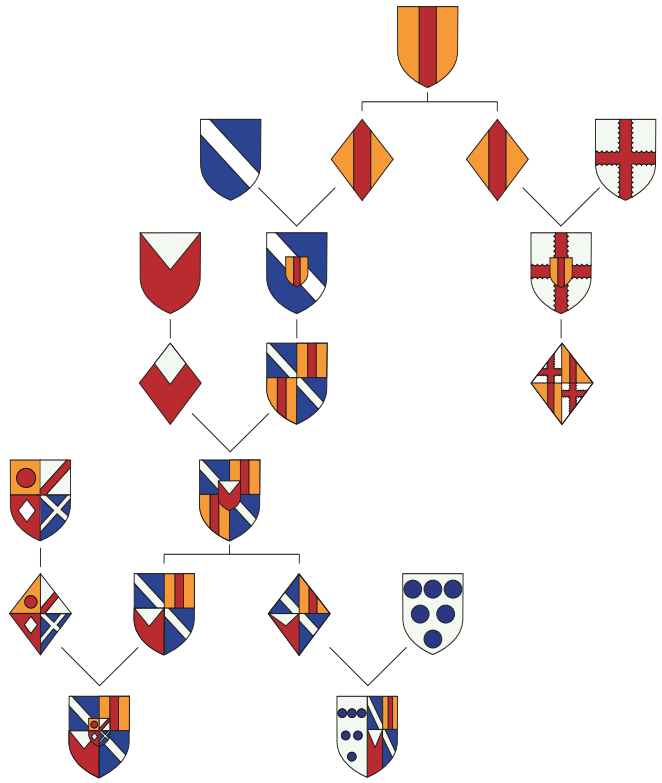
6. Face value.
Popular Mechanics has brand equity to spare—enough that a major retailer licensed the publishing name as its private label for DIY hand tools. Which retailer is it? *(Answer below.)*
A) Target B) Kohl's C) Wal-Mart D) Lowe's



7. The earliest use of branding.
The discipline of corporate identity emerged in the 1950s, but the use of branding began much, much earlier.

8. The first modern business brand.
The 18th century English artisan Josiah Wedgwood is often credited with building the first modern business brand.

WEDGWOOD
ENGLAND 1759



9. A precedent in heraldry?
Just as it was important in the Middle Ages, it's still important to highlight the connections between members of a corporate "family tree."

10. Not like a virgin.
Name the product that Virgin is NOT associated with: *(Answer below.)*
A) Virgin Wines
B) Virgin Brides
C) Virgin Cosmetics
D) Virgin Savings and Investment Accounts
E) All of the above

ANSWERS: 5) Harley-Davidson. 6) Wal-Mart 10) E.

Design connections

What's in a name? A color? A symbol? In a word, everything. Paint a UPS truck the wrong shade of brown and it's no longer "UPS." Print Nike's swoosh upside down and you've displaced Nike—and made it look like the Newport cigarette symbol.

Brand identity is about creating emotional connections between consumers and brands. It is the carefully crafted system of color, typography, imagery, language, sound, and even smell that communicates the character of a company and its products to customers, investors, and employees. It is a remarkably powerful tool for communicating relationships among brands in a portfolio—think of American Express's platinum, gold, and green cards, the "Na-bis-co" mnemonic device, or the shared symbol of the family of ABN AMRO companies illustrated on page 26.

Yet companies often ignore exploration and assessment of design solutions until long after key decisions about brand structure have been made. The consequences are often awkward and always costly. True story: Executives at a large manufacturer had signed off on a new brand portfolio strategy. But several were surprised when they saw how the design—expressed in signage, company names, and on business cards—reflected their positions in the re-branded company. Earlier, they had not fully understood the implications of what they'd agreed to; now they saw instantly what was communicated.

If the brand identity components had been integral to those companies' brand portfolio discussions from the start, those incidents would probably never have occurred. Design can add tremendous clarity to the decision-making process; business leaders can literally see how brand portfolio alternatives might play out visually and how the individual brand portfolio entities relate to each other.

There are myriad ways for a company to express and leverage its brand identity. What's crucial is to understand that there is always more than one way to communicate brand portfolio relationships. If the structure is a master-brand model, for example, the visual identity must communicate the brand strategy horizontally across the organization as well as vertically through each product or service offering. The magic is in finding the most appropriate and creative solution to communicate that structure and the business strategy behind it. To arrive at such solutions, designers employ visual, verbal, and other sensory elements that help them communicate the right relationships among brands.

COLOR: Strong brand equity in a color (think of Tiffany blue or John Deere green) can instantly convey a family relationship when the color is shared across business units and product brands. It can even survive a merger with a master-brand practitioner, as in the case of Lotus, the software company that IBM acquired. Lotus's bright yellow has not been replaced with IBM's blue because it still provides distinction and a positive emotional connection to a heritage valued by Lotus customers.

SYMBOL: A strong symbol can unite an organization's core business signatures, or it can simply be used as an endorsement to signal a more flexible family connection. The red Nabisco triangle on packets of Ritz Bits and Oreos is a highly visible corporate endorsement, conferring authenticity and accountability and linking the business and product portfolios. At the same time, Nabisco benefits from the halo of goodwill generated by the success of the individual brands.

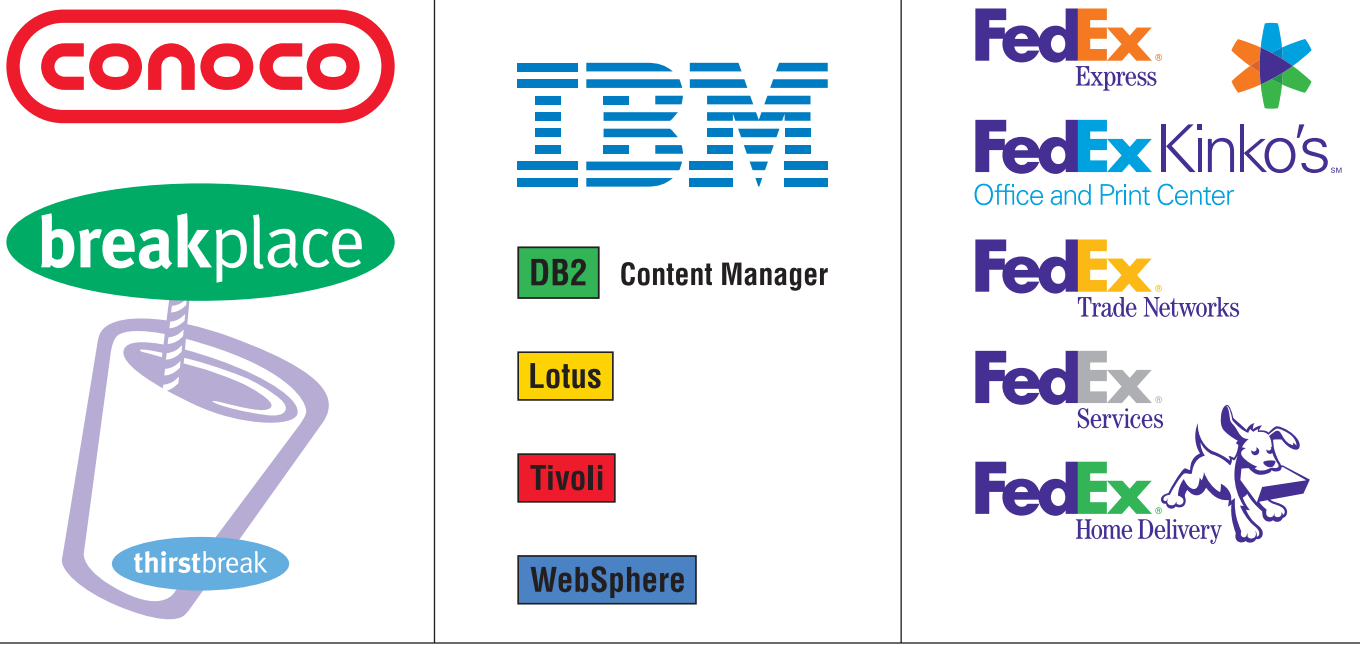
TYPE: With thousands of typefaces available, it's not surprising that only a handful of companies have successfully built visual equity with their proprietary use of type. IBM has done so. When IBM launched its "e-server" machines, the logo designed with IBM's proprietary Bodoni typeface immediately connected the concept to IBM, even without the support of the company's logo.

SHAPE: Shape can accrue brand equity when used consistently in two-dimensional communications. (It is especially successful in product branding and retail environments.) The Absolut Vodka bottle shape (along with its translucent color) has tremendous visual equity, making product line extensions easy for consumers to recognize and accept. •

UNLI
POWE
NEXTEL NAT
ABSOLUT
Country of Sweden
VODKA
Tony got 3,
Thank Yous
going to vi
mom.
atow
of iPod Th
sm
e se
TM

A world of options

The right design choice can instantly communicate the brand structure



Master brands—each with its own twist: IBM's weighty blue letters appear on everything from its computers to its letterhead, but Big Blue makes an exception for Lotus's yellow packaging. Each MasterCard business unit has its own color pair, but they all share the company's overlapping circles and italicized typeface and weight. Similarly, General Electric is clarifying the identities of its business units with a simple color convention. FedEx goes a step further with icons, text, and even a friendly and appropriate illustration. And the oval of the Conoco petroleum brand is echoed in the logo of the breakplace convenience stores found at many Conoco service stations.

NISSAN

INFINITI

Dimensionality: The "family" link between Nissan and Infiniti is evident in the similar shading, curve, and depth of their refined brand symbols. Yet the logos remain separate and distinct.

Microsoft

Microsoft Windows xp Professional

Microsoft .net

Microsoft Office

TimeWarner

HBO
A TimeWarner Company

CNN
A TimeWarner Company

America Online
A TimeWarner Company

A TimeWarner Company

Turner
A TimeWarner Company

iPhoto
iMovie
iTunes

Endorsement: Microsoft's "overbranding" *(above)* enhances both corporate and product brand equity while declaring a master-brand structure. TimeWarner's subtitle makes it clear that it is the parent behind its separately branded businesses.

Graphic: Apple's simple symbol makes for a highly effective master-brand logo when used with a flexible product naming convention and recognizable typeface *(left.)* ExxonMobil's straightforward use of symbol and nomenclature leaves no doubt about which of the master brand's business units you are dealing with.

Language: Restructured businesses and spin-offs can use evocative words and phrases *(below)* to signal fresh approaches and to capture some of the brand equity of powerful former parents or associates.

ExxonMobil

ExxonMobil *Aviation*

ExxonMobil *Coal and Minerals*

ExxonMobil *Marine Fuels*

World of TUI

Lucent Technologies
Bell Labs Innovations

Agilent Technologies
Innovating the HP Way

Genworth Financial
Built on GE Heritage

CASE PROFILE

Dutch master

ABN AMRO creates an emerging global brand

In late 2003, legendary Dutch soccer team AFC Ajax played a match in Sweden that marked their primary sponsor's acquisition of Alfred Berg, a prominent Swedish bank. The Ajax players were wearing their usual shirts bearing the green-and-yellow emblem of sponsor ABN AMRO, the Dutch financial services giant. The Alfred Berg bank would soon be wearing ABN AMRO's emblem too.

The Swedish bank's logo change was the latest step in ABN AMRO's ambitious rebranding operation. The move was mirrored by many of ABN AMRO's other recently acquired subsidiaries as the Dutch conglomerate rolled out a disciplined brand strategy worldwide.

Today, the ABN AMRO name is familiar in financial circles globally. That's a big change from how things were at the end of the 1990s, when ABN AMRO was a household name in Holland but little known elsewhere. ABN AMRO's core challenge: to take a northern European regional brand and make it into a recognized global powerhouse. The bank's aggressive growth strategy would give ABN AMRO the base but not the recognition. In fact, its pattern was to allow new subsidiaries to act independently and retain their identities. Although there was a clear ABN AMRO parent identity, there was no enforced policy for how the new units should or shouldn't be folded into the ABN system—organizationally or in terms of brand.

Logos proliferated; business units were free to amend business cards, brochures, and signage as they saw fit. "Every day we see additions to ABN AMRO. Divisions and groups simply make up their own names," said one dismayed corporate executive.

Change began with a company-wide reorganization in 2000. ABN AMRO's leaders restructured the company around three client groups: wholesale; consumer and commercial; and private client and asset management. Prudently, they elected not to have the new organization structure form the basis for the external brand communications strategy. But the executives knew that with more services, more segments, more marketing programs, and more media options than ever before, they risked letting inconsistency dilute and eventually erode the corporate brand.

ABN AMRO's executives brought in Lippincott Mercer to help validate their ideas and devise a company-wide brand architecture strategy. They had previously worked with the consultancy when ABN AMRO acquired Banco Real, Brazil's fourth-largest private-sector bank. With Lippincott Mercer's help, the Dutch executives researched the comparative value of Banco Real's brand equity, devised positioning platforms, and decided what would preserve Banco Real's brand leverage while firmly planting ABN AMRO's identity in Brazil. Their decision: to keep the Banco Real name everywhere but to apply the parent's green and yellow identity scheme and to endorse it with the ABN AMRO name in small letters.

The bank's recent global brand rollout is, in practice, an extension of the successful Banco Real solution. Lippincott Mercer helped ABN AMRO's executives confirm their belief that by linking the ABN AMRO name to well-known and well-respected local brands, the company could build awareness and understanding of the organization at the critical moments when customers make financial services decisions.

The company's executives also understood that brand reinforcement requires discipline. They worked with Lippincott Mercer to develop long-range brand planning goals that would help to guide future acquisitions.

And who won the soccer match that day? The real answer: ABN AMRO. •

e banks.
ace.

t's leading banks, LaSalle Bank and
different. They are adding our green
's a decision shared with many
n markets. We're proud they'll
the world's leading banking
shows they are joined with
ons here in the US and
etween over 100,000
haring knowledge
ogether, serving
er one shield.

ABN·AMRO

Alfred Berg
ABN AMRO

BANCO REAL
ABN AMRO

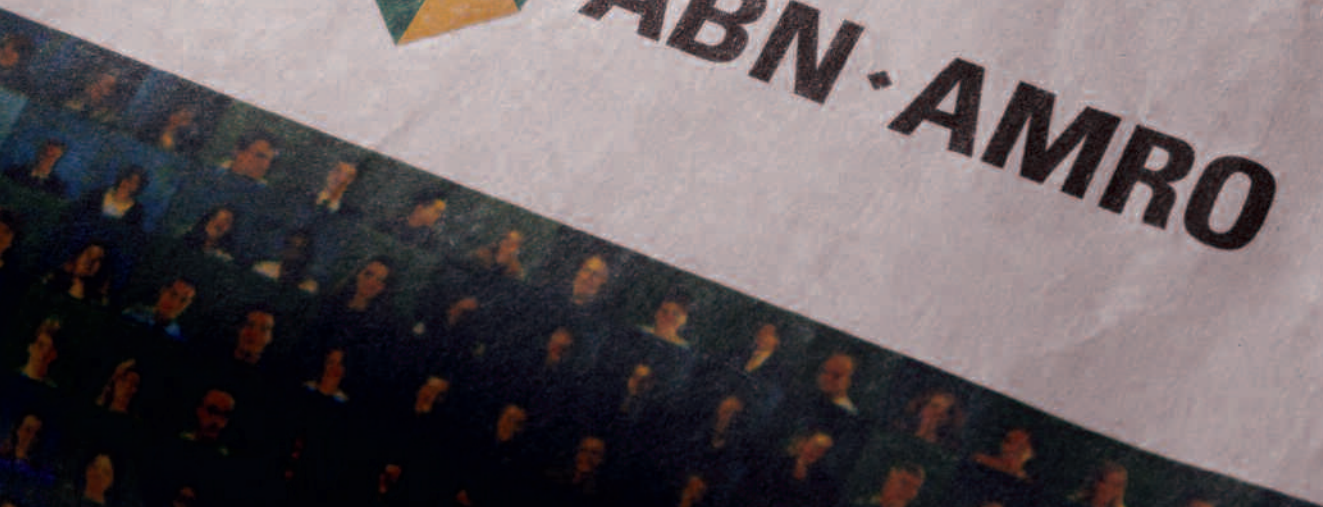
Delbrük
ABN AMRO

Hoare Govett
ABN AMRO

LaSalle Bank
ABN AMRO

Standard Federal Bank
ABN AMRO

ABN·AMRO



Stiff resistance

Achieving the ideal brand portfolio is no easy task. Wall Street demands growth, and companies are eager to prove they are constantly expanding and strengthening. Some companies can and do grow organically, establishing new divisions and business units to pursue emerging markets. Others can better fuel expansion through acquisitions. Often lost in this flurry of activity is a strategic consideration of what a company's ideal brand portfolio should be—something that can lead to stiff internal resistance if it turns out that some brands must be eliminated.

In many situations, there are practical reasons for delaying such brand changes. A company might want to keep disruptions to a minimum to reassure current customers (and employees) that business will continue as usual. In the case of a merger or acquisition, companies may postpone in-depth brand discussions because the talks can be contentious, or they may contractually defer such talks to avoid the possibility of derailing a deal. Too often, though, stopgap brand decisions made at the time of an acquisition live far longer than their practical need, resulting in the retention of complex portfolios that do not align with the long-term strategy they were intended to achieve.

With any acquisition—one of a myriad reasons for a brand portfolio to change—closing the deal is just the beginning. All transactions have risks, but the greatest risk is not realizing the anticipated value from the union of the two companies. One certain way to sabotage the long-term goal of an acquisition is to retain old or redundant brands, diverting resources and attention and impeding advancement of the company's strategic direction. Sometimes executives find it difficult to see the big picture until all the pieces are in place, so they continue accumulating brands with little consideration of the resulting portfolio. Then, after a period of intense growth, many CEOs will look at their brand portfolios and ask, "What happened?"

Once company leaders have determined a branding strategy, they may find that streamlining the brand portfolio is rough going. When one company acquires another, the issues can be especially loaded. In the vast majority of the cases in which we're asked to help a company resolve brand portfolio issues, resistance to change stems from senior managers' perceived loss of organizational power and stature. Few CEOs or presidents, accustomed to calling the shots at their companies, want to become division heads. But people will rarely admit their fears or explicitly blame organizational politics. Instead, they will offer seemingly legitimate reasons for their resistance. The problem is that even if the pushback is a pretext for other issues, it must still be addressed if the organization is to move forward. So, first and foremost, brand leaders should be alert to the various obstacles they are likely to encounter. Here are the common ones.

1. "WE'RE NOT ORGANIZED THAT WAY."

Managers frequently assume that the architecture of their brand portfolio reflects—or should reflect—the organizational structure of the whole company. So, when they see that the architecture is being altered, they are likely to resist if they believe the changes will adversely affect their (or their group's) status and their perceived roles in the organization in the future. But the structure of a brand portfolio is a communications structure, not an organizational one. That is, the objective of a portfolio strategy is to enable a company to clearly communicate information about its competencies, capabilities, and offerings so the company can be better understood by its stakeholders.

2. "OUR BRAND HAS FAR TOO MUCH EQUITY FOR IT TO BE ELIMINATED."

Not surprisingly, managers often overestimate or even exaggerate the equity of their brands. This is why companies must

Underlying reasons why it is hard to streamline brand portfolios:

Managers fear they will lose power or stature

Companies fear that customers will leave

Companies fear that valued employees will walk

possess hard data to quantify the claims for individual brands. If the data isn't readily available, companies can conduct their own studies to better inform their decision-making. The rationale of "too much equity" may be legitimate in some instances—particularly for certain mass-market products—but not in others.

Long-established brands may indeed have substantial equity. But even then, their value can be transferred to another brand through careful management if such a move will help a company to better realize its strategic objectives. For example, if the strategy is to consolidate a few products or entities under one master brand, the argument of "our brand has too much equity" should not be an impediment. In these situations, the most important issue isn't necessarily how much equity a brand has but how to transfer that equity to the desired brand—and then build on it. (See "Science appliance" story.)

The process of transferring equity between brands can be particularly tricky, beginning with gathering the market research data a company needs to determine how to proceed. A common mistake is to simply measure brand equity among users and non-users. Not surprisingly, the results will often reveal strong equity among the first group and not the latter. If the numbers are taken at their literal value, the company will likely keep the brand intact even if its strategy calls for changes.

Instead, a goal of the research should be to identify the equity elements (that is, the attributes of a brand, such as "reliability," "stability," and "innovativeness") that need to be transferred and to provide insights into what will be lost and gained in the process. Equally important in this kind of analysis is a qualitative study that investigates exactly how customers would feel about a change of brand. Such qualitative research can help to prevent customer defections by providing information on what the brand change will signal to customers and by enabling the company to develop a transition plan that would address customers' hopes, concerns, and expectations.

UPS offers a good example. After the delivery company had acquired several transportation brands to build its logistics competency, UPS executives wondered why it was not known for its new capabilities. One proposal was to eliminate the individual brands of the acquired firms (for example, Martrac, SonicAir, and others) and begin connecting those capabilities to the UPS brand.

But the idea sparked considerable internal concern about how customers would react to the loss of the existing brands. Even so, when customers were asked how they would feel if the names of those brands were changed to UPS, a typical response was, "Well, I already know that Martrac is part of UPS, so I was wondering when the name would change."

The lesson is that companies shouldn't live and die by "equity folklore." Instead, they must perform the appropriate research to determine just how much equity a brand has and how difficult (or easy) it might be to transfer that equity to another brand.

3. "OUR CUSTOMERS ARE ALSO COMPETITORS OF OTHER BUSINESSES IN THE ORGANIZATION, SO OUR BRAND HAS TO REMAIN INDEPENDENT."

Sometimes a company's competitors are the customers of the firm it acquires. When IBM bought Lotus, for example, the deal raised a number of delicate issues, including the fact that Compaq, one of IBM's rivals, was a Lotus customer. Obviously, such situations require deft management of the trade-offs in context of the long-range vision.

One smart move that IBM made was to avoid moving too quickly in the initial stages of the acquisition. For example, IBM kept the Lotus brand independent for some time (both as a company name and a product brand). But gradually, as Compaq and other customers became acclimated to the acquisition, and as IBM became known as a software provider, IBM migrated Lotus from a company to a division and eventually to a product brand, thus allowing IBM to realize the value of the acquisition. If IBM had changed the Lotus brand immediately, the move might easily have led to customer defections.

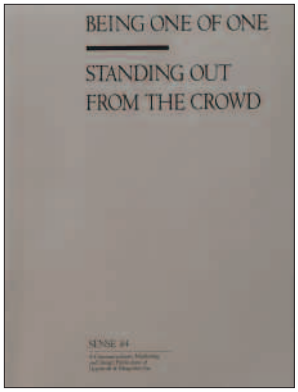
4. "IF WE CHANGE OUR BRAND IT WILL SIGNAL A DIFFERENT CULTURE."

The claim here is that a new culture will somehow alienate customers. Our recommendation is to better determine customers' understanding of the change, to hear their expectations and what they perceive to be the benefits and drawbacks—and to address their concerns immediately with a concerted communication effort. In business-to-business markets, sometimes customers' sole concern is their ability to continue dealing with the same people in sales and customer support. If their relationships and experiences remain much the same, customers will feel unaffected by the change —and will remain customers.

Some managers might also claim that a change in brand will signal a new working style and culture and therefore result in a quick exodus of key talent. This issue can certainly be legitimate in the early stages of an acquisition when the two companies have very different cultures, and CEOs should err on the side of caution.

The simple fact is that employees will experience many changes in the cultures of their companies. But if any attendant change in brand presents the changes in a positive light—in a promising light for employees—then a "talent flight" is much less likely.

1983:



WHAT *SENSE* WAS SAYING:

"'There are a lot of portfolio managers who wish they had done as well as he has.' The financial analyst making this remark was not commending the unusual skill of an investor in managing his stocks and bonds. He was pointing to a new breed of corporate executive: 'This corporate leader views his company's various lines of business as the portfolio manager views individual equities within the portfolio—some to be bought, some to be sold, some to be expanded, some to be merged.'"

5. "THE BRAND IS AN ASSET ON THE BALANCE SHEET THAT CAN'T BE WRITTEN OFF."

With new accounting standards in place for recognizing intangible assets, this factor is increasingly cited as a reason for retaining a brand that should otherwise be eliminated to achieve a strategic objective. The issue is legitimate: The accounting standards must be met. This is where it becomes important for senior management to have a vision for the brand portfolio—and to declare their position accordingly. In the case of an acquisition, it's obviously important to determine a value—a value that must be determined relative to the brand's ongoing value to the acquiring company. The question is whether the true value is associated with the name or the components of the acquisition. Is the brand asset assigned to the company being acquired or to its products and services? If it's truly the brand name, then under accounting standards the acquirer will find it more difficult to eliminate the brand and its related expense.

TOWARD STRONGER BRAND PORTFOLIOS

The issues we discuss above have the greatest impact for companies that tend to follow or are moving toward a master-brand portfolio model. Such organizations have usually made significant investments to round out their capabilities and broaden perceptions of their brands in positive ways. But if those companies acquire other brands and keep them independent, they will need to make additional investments to communicate how the brands they purchased tie together with the master brand. The smarter—and certainly less costly—approach can be to eliminate some of the acquired brands, with the awareness that such efforts can run into vigorous internal resistance.

Brand changes are inherently difficult, particularly when some brands are transitioned to others or eliminated altogether. Brands' powerful symbolism can cause tremendously emotional debate, so it is crucial for business leaders to separate the rational from the emotional during their decision-making. Hard data—to determine, for example, just how much equity a brand has—can help center the discussion on rational issues.

Clearly, the best approach is to concentrate on the strategic goals of any proposed brand change rather than on the emotions and perceptions of a few internal constituents. But that speaks to an ideal world.

In practice, senior managers still must do more to factor in the emotions of all those who will be affected—positively or negatively—by any brand change. ●

It is best to focus on the strategic goals of planned brand changes rather than on naysayers' perceptions

Glossary

When the founders of Lippincott Mercer originated the concept of "corporate identity," the term denoted the most fundamental ways that a company projects its individuality. Over time, the firm has developed sophisticated new methodologies and tools for building and managing distinctive corporate, retail, and brand identities. With it has grown a vocabulary of industry terms, honed and refined through client assignments, highlights of which are collected in this glossary for reference.

BRAND EQUITY: The power of a brand—through successful creation of a positive image—to shift demand and change customer behavior.

BRAND IDENTITY: The controllable elements that can be used to identify a brand (name, logotype, symbol, color, key messages, sound, product configuration, service offering, and packaging).

BRAND IMAGE: The complete bundle of thoughts a customer has in his or her mind about a company, product, or service developed through communications and experience, including the distinguishing "human" characteristics of a brand personality (e.g., warm and friendly, strong and reliable).

BRAND PROMISE: A statement of the enduring, relevant, and distinctive benefits customers associate with a product, service, or company.

BRAND STRATEGY: Long-term plan for the brand including a determination of key audiences and an understanding of what those audiences need to know about the brand and experience.

COMMUNICATIONS AUDIT: A formal examination of an organization's visual and verbal communications practices.

COMMUNICATIONS PLAN: A company's communications goals and objectives, and the messages and vehicles that will be used to meet them.

CORPORATE IDENTITY: The controllable elements (name, logotypes, symbols, color, key messages, sounds, signs, offices, factories, advertising, trucks, packaging, letterhead, business cards, etc.) used to identify a company.

CORPORATE IMAGE: The perception that people have of a company, based on a combination of various communications and personal experience.

CORPORATE MISSION: Defines why the organization exists, its core values and intent, and serves to unite organizational behavior.

CULTURE AND STYLE: Distinctive attributes and competitive advantages relating to organizational beliefs, values, and traits; how the organization behaves as it uniquely goes about its business.

IMAGE ATTRIBUTES: Help define the tone, manner, personality, and style of a brand, often the differentiating factor between similar products and services.

IMAGE CRITERIA: The desired "personality" attributes of a company, product, or service that guide name and design development.

LOGOTYPE: A unique group of letterforms that represent the corporate brand. IBM, Nuveen, and GAP feature logotypes as their primary form of identity.

MESSAGE: The information (facts, strengths, culture/style, and future direction) that is most relevant to priority audiences and serves as major content points for all communications.

NAME DIRECTION: Creative concepts and approaches that guide name generation.

NAME GENERATION: Creative development of a comprehensive yet focused list of names that address specific image and functional criteria.

NAMING: The strategic and creative discipline of developing the most appropriate word or words to identify an organization, product, or service.

NOMENCLATURE SYSTEM: Method for associating divisions, subsidiaries, brands, etc. with the parent company.

POSITIONING STATEMENT: Provides the underlying platform for communications, reflecting the company's/brand's value proposition. Addresses:

1. DEFINITION: how the company defines its business or how the brand defines its competitive set; who we are and what we do;
2. DIFFERENTIATION: what makes the company/brand special; how we do it; and
3. DELIVERABLE: benefit delivered to its customers.

SYMBOL: A non-typographic element of an abstract or representational nature. Texaco, Apple, and Continental Airlines feature graphic symbols as an important form of their identities.

VISUAL COMMUNICATIONS SYSTEM: A planned method of identification including the use of a company's name, logotype, color palette, and secondary typography; a company's graphic "look and feel," applied to a wide cross-section of media to create a cohesive brand presence.

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"We're not your real parent corporation."

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Lippincott Mercer is a leading brand strategy and design consultancy. The firm was founded in 1943. Lippincott operates globally from its headquarters in New York City and other offices in the United States, Europe, and Asia. For more information visit www.lippincottmercer.com.

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LIPPINCOTT MERCER
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"If we were building a portfolio today, we wouldn't start with lighting and appliances, that is for sure. We're limited by the growth, and we're limited by the positions they have in terms of being able to globalize. Neither business is on fire. We're No. 1 in both. They both return their cost in capital. They're good for the brand.

The way that we use a business like appliances is, it's a great place to train people. Those businesses are in recession almost all the time. So you learn unbelievable management skills at businesses like that."

JEFFREY IMMELT, GENERAL ELECTRIC

"Basically, P&G is a collection of brands. In the U.S., we are known more by our brands than we are as a company."

A.G. LAFLEY, PROCTER & GAMBLE

"Brands create a monopoly by permission. We all know that perfect markets lead to low profits, because prices trend toward the marginal cost of production. Brands create the market imperfections that are essential to superior profitability and they do so with the full compliance of the consumer… So we like the little monopolies that come with brands. In a world that is heavily regulated—and properly so—brands are one of the few kinds of monopoly that any company can have."

NIALL FITZGERALD, RECENTLY OF UNILEVER

"There are significant opportunities to leverage the equity of the Starbucks brand on all sorts of products and services, but we turn down 99 percent of them even though they would create substantial short-term revenues and profits . . . These are matters that are not in the textbook, but that are in your heart, about what we feel is right for Starbucks to be doing."

HOWARD SCHULTZ, STARBUCKS

"The key to improving Sara Lee Bakery Group's performance is a strong strategic focus. We must focus on leveraging the Sara Lee brand while we consider reducing the number of other brands and SKUs that we produce. Then we will increase our productivity and generate long-term, sustainable growth."

RICHARD NOLL, SARA LEE

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